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**NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED**

**INTERIM REPORT
JUNE 30, 1967**

To the Shareholders:

The first six months of 1967 has continued in much the same pattern as the last six months of 1966. Although volume and efficiency have increased, the cost of labour and materials has risen substantially since the same period last year.

Net earnings for the six month period ended June 30, 1967, amounted to \$110,978 including \$24,338 of non-recurring income (derived from a fire insurance claim). The corresponding figure at June 30, 1966, was \$49,161.

There is a strong demand for both treated and untreated timber products this year. Most of our untreated lumber is being distributed locally where there is a good market for such production. Our tar distilling operations and the production of our pipe enamel plant show some improvement over the previous period, and are expected to produce year end results that exceed those of 1966.

We are continuing our efforts to up-grade the products of our saw mill. As mentioned in our last Annual Report, the proximity of a new sulphate kraft mill has increased the local demand for wood chips. This new emphasis allows us to concentrate on the production of larger, higher priced lumber and timber, and to convert smaller logs into wood chips.

The nature of our business does not lend itself to quarterly comparisons, and income from repeat business does not always fall into parallel fiscal periods. However, we are confident that the year, taken as a whole, will produce satisfactory results.

August 15, 1967

R. J. PRETTIE
President

NORTHERN TAR, CHEMICAL AND WOOD LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF EARNINGS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1967 (unaudited)

	June 30 1967	June 30 1966
Net Sales	\$3,873,694	\$3,708,760
Cost of Sales	3,305,806	3,239,386
Gross Earnings	\$ 567,888	\$ 469,374
Less Depreciation	98,453	87,118
Earnings from Operations	\$ 469,435	\$ 382,256
Other Income	24,050	2,029
Earnings before the following deductions	\$ 493,485	\$ 384,285
Administrative & Selling Expense	\$ 247,903	\$ 217,837
Interest on Debentures	34,852	38,388
Amortization of Debenture Expense	1,571	1,571
Financial Expenses	69,588	47,662
	\$ 353,914	\$ 305,458
Earnings before Income Taxes	\$ 139,571	\$ 78,827
Provision for Income Taxes	52,931	29,666
	\$ 86,640	\$ 49,161
Non-recurring Income	24,338	—
Net Earnings For Period	\$ 110,978	\$ 49,161

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1967 (unaudited)

	June 30 1967	June 30 1966
Source of Funds		
Earnings for period	\$ 110,978	\$ 49,161
Charges against income not requiring cash outlay — Depreciation	98,453	87,118
Amortization of finance expenses	—	1,572
Issue of Common Shares under option agreement	7,000	16,000
Tax adjustment — Prior years	14,482	—
Premium on redemption of Preferred Shares	1,800	—
Decrease in Working Capital	125,719	284,645
	\$ 358,432	\$ 438,496
Application of Funds		
Purchase of fixed assets	\$ 146,447	\$ 233,919
Redemption of Preference Shares	11,500	23,291
Dividends paid — Common	81,620	81,240
— Preferred	29,481	30,046
Instalment payment on Long-Term debt	70,000	70,000
Refundable Corporation Tax	6,864	—
Adjust. fire — Sask. 1966	3,355	—
Financing Expense	9,165	—
	\$ 358,432	\$ 438,496

NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED



ANNUAL REPORT
1967

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

HIGHLIGHTS

	<u>1967</u>	<u>1966</u>
Sales - - - - -	\$8,112,112	\$7,798,773
Earnings before taxes and non-recurring income - - -	542,874	445,085
Provision for income taxes - - - - -	232,814	183,805
Net earnings - - - - -	334,398	328,654
Net earnings per share after payment of preferred dividends	66¢	66¢
Preferred dividends paid - - - - -	\$ 58,629	\$ 59,777
Common dividends paid - - - - -	164,300	162,520
Retained earnings - - - - -	732,824	605,164

REPORT OF THE PRESIDENT



Your Company and its subsidiaries have completed a gratifying year of operations in which many of the plans initiated in prior years have begun to show results.

Both sales and earnings for the year ended December 31, 1967 showed a slight improvement over the previous period despite several unexpected setbacks during the year.

Earnings

Net earnings, after taxes, for the year ended December 31, 1967 were \$334,398, compared with \$328,654 in 1966. This slight increase resulted in net earnings per share, after payment of preference dividends, of 66 cents—an amount equal to last year's comparable figure. Non-recurring income, included in net earnings, amounted to \$24,338, whereas 1966 earnings included \$67,374 of non-recurring income.

Sales

Sales advanced proportionately from \$7,798,773 to \$8,112,112—the increase being attributed mainly to the upgrading of the Company's products and the resultant unit price improvement.

Dividends

During the year, dividends in the amount of \$164,300 (equivalent to 40 cents per share) were paid to holders of common shares. Dividend payments on the Company's \$1.70 cumulative, redeemable preference shares, Series "A", totalled \$58,629.

Operations

While a buoyant economy has helped the trend of progress over the past few years, improved production and profitability have stemmed from continuing, carefully planned programs within the Company.

By confining production to higher grade products, average selling prices have been improved and inventories of low value items have been reduced. Increased demand for pulpwood and woodchips made possible a reduction in the volume of small wood going into the Company's sawmills, thus effectively reducing production and inventories of small and low grade lumber products.

The pressure treatment plant at Prince Albert, Saskatchewan, was idled for approximately seven weeks during its peak production period by a strike among the employees. While the work stoppage is reflected in current earnings, the resultant backlog of production has been carried over into 1968.

Another unexpected event occurred when a fire at the Port Arthur plant destroyed the adzing, boring and incising operations through which all railway ties must pass before treatment. Due to the nature of this equipment, replacement could have been difficult, but fortunately it was found that most of the machinery could be rebuilt by the Company's own millwrights. This was accomplished in 1967—along with the reconstruction of the damaged building. Every precaution has been taken to prevent any recurrence, although the Company is adequately insured against such eventualities.

At the time of the disruption of business at Port Arthur and Prince Albert, both plants were committed to operating at capacity. Consequently, production schedules were revised accordingly and much of the work originally scheduled during 1967 has been successfully carried over into 1968.

Tar enamels and distillates continued in good demand throughout the year and production kept pace with sales and delivery schedules. As pipeline construction experiences the predicted upturn in production in 1968 and beyond, the tar distillation division will increase its output accordingly.

Outlook

Plans have been worked out for better and more economical operations in several areas. Woods techniques and equipment are continually being improved to increase efficiency wherever possible. Term contracts have been renegotiated on a more equitable basis. Further capital expenditures are

contemplated to maintain plant and equipment at maximum effectiveness and to control costs in an era of spiralling wage increases.

At a time when the general economy seems to be undergoing an overhaul, your Company is looking forward to the future with optimism.

This report would not be complete without acknowledging the loyal and efficient work of your Company's employees and the support of its shareholders and associates.

On behalf of the Board

R. J. PRETTIE
President

March 11, 1968



TEN YEAR SUMMARY

Year Ended - - -	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>
Operating profit, before interest on long term debt, depreciation and taxes on income -	\$848,897	\$784,427	\$906,641	\$825,440	\$665,524	\$554,385	\$479,845	\$816,216	\$713,165	\$648,975
Interest on long term debt - - - - -	72,109	75,385	81,053	84,433	53,947	375	795	1,575	2,175	5,736
Depreciation - - -	209,576	196,583	170,348	150,179	122,990	230,538	225,395	236,149	250,162	245,847
Earnings before income taxes - - -	567,212	512,459	655,240	590,828	488,587	323,472	253,655	578,492	460,828	397,392
Income taxes - - -	232,814	183,805	277,115	247,630	183,860	161,563	119,828	291,804	238,688	188,022
Net earnings - - -	334,398	328,654	378,125	343,198	304,727	161,909	133,827	286,688	222,140	209,370

NOTE: Operations for the six years from 1958 to 1963 were conducted by the Northern Wood Preservers, Limited group of companies, of which Northern Tar, Chemical and Wood Limited acquired 100 per cent ownership in 1964.

NORTHERN TAR, CHEMICAL AND WOOD LIMITED and its subsidiary companies
(incorporated under the laws of the province of Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1967

(with comparative figures for 1966)

ASSETS

CURRENT

	1967	1966
Cash - - - - -	\$ 56,806	\$ 84,484
Accounts receivable, less allowance for doubtful accounts (1967—\$18,443; 1966—\$21,184) - - - - -	926,783	1,457,858
Inventories at lower of cost and market - - - - -	1,621,558	2,070,355
Work in progress—at cost - - - - -	330,286	338,703
Area Development Incentives Act grant - - - - -	35,000	—
Cash surrender value of life insurance - - - - -	64,988	60,378
Prepaid expenses - - - - -	31,773	36,088

SPECIAL REFUNDABLE TAX - - - - -	19,268	12,893
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INVESTMENTS AT COST - - - - -	15,335	13,335
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FIXED (Note 1)

Land, buildings, road, machinery and equipment - - - - -	6,478,277	6,318,534
Less accumulated depreciation - - - - -	3,204,820	3,075,846
	3,273,457	3,242,688

DEPOSITS - - - - -	17,500	17,500
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DEFERRED CHARGES

Organization and financing costs less amortization - - - - -	152,226	145,324
Goodwill and patent rights—at cost - - - - -	14,491	14,491
	166,717	159,815

On behalf of the Board:

R. J. PRETTIE, *Director*

S. F. MACK, *Director*

<u>\$6,559,471</u>	<u>\$7,494,097</u>
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AUDITORS' REPORT

The Shareholders,
NORTHERN TAR, CHEMICAL AND WOOD LIMITED.

We have examined the consolidated balance sheet of Northern Tar, Chemical and Wood Limited and its subsidiary companies as at December 31, 1967 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

(The accompanying notes are an integral part of these financial statements.)



LIABILITIES

	1967	1966
CURRENT		
Bank advances (secured) - - - - -	\$ 919,521	\$1,998,596
Accounts payable and accrued liabilities - - - - -	650,721	613,990
Current instalments of long term debt - - - - -	70,000	70,000
Provision for income taxes (Notes 2 and 6) - - - - -	69,320	31,709
Dividends payable - - - - -	56,114	55,492
	<u>1,765,676</u>	<u>2,769,787</u>
LONG TERM DEBT (Less current instalments) (Note 3)		
6.50% secured debenture due May 15, 1978, payable in annual instalments - - - - -	950,000	1,020,000

SHAREHOLDERS' EQUITY

CAPITAL

Authorized:		
98,219—Preference Shares with a par value of \$25 each issuable in series (Note 5)		
1,000,000—Common shares without par value		
Issued and fully paid:		
34,219—\$1.70 cumulative, redeemable preference shares, Series A (Note 5) - - - - -	855,475	873,650
418,400—Common shares (12,000 shares issued for cash of \$30,000 in 1967, 6,400 shares issued for cash of \$16,000 in 1966) - - - - -	854,000	824,000
	<u>1,709,475</u>	<u>1,697,650</u>
RETAINED EARNINGS - - - - -	732,824	605,164
EXCESS OF NET BOOK VALUE OF SUBSIDIARY COMPANIES OVER COST OF INVESTMENT THEREIN - -	401,496	401,496
FIXED ASSET REVALUATION (Note 1) - - - - -	1,000,000	1,000,000
	<u>3,843,795</u>	<u>3,704,310</u>
	<u>\$6,559,471</u>	<u>\$7,494,097</u>

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and application of funds, supplemented by the notes thereto, present fairly the financial position of the companies as at December 31, 1967 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Port Arthur, Ontario,
January 26, 1968.

F. H. BLACK & Co.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1967

(with comparative figures for 1966)

	1967	1966
Sales - - - - -	\$8,112,112	\$7,798,773
Cost of Sales - - - - -	6,728,401	6,528,353
Gross Earnings from Operations - - - - -	<u>1,383,711</u>	<u>1,270,420</u>
Operating Expenses		
Administrative and general - - - - -	438,124	399,882
Directors' and senior officers' remuneration and expenses - -	116,020	104,196
Depreciation - - - - -	209,576	196,583
	<u>763,720</u>	<u>700,661</u>
Net Earnings from Operations - - - - -	<u>619,991</u>	<u>569,759</u>
Financial Expenses		
Debentures—interest - - - - -	68,274	72,241
—amortization of financing costs - - - - -	3,835	3,144
Other interest and discounts - - - - -	116,474	111,787
	<u>188,583</u>	<u>187,172</u>
	431,408	382,587
Other Income - - - - -	111,466	62,498
	<u>542,874</u>	<u>445,085</u>
Provision for Income Taxes (Note 2) - - - - -	232,814	183,805
Net Earnings Before Non-Recurring Income - - - - -	310,060	261,280
Non-Recurring Income - - - - -	24,338	67,374
Net Income for the Year - - - - -	<u>\$ 334,398</u>	<u>\$ 328,654</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1967

(with comparative figures for 1966)

	1967	1966
Retained Earnings, January 1 - - - - -	\$605,164	\$496,923
Add: Net income for the year - - - - -	334,398	328,654
Discount on redemption of preference shares - - - - -	2,748	1,884
Adjustments applicable to prior years - - - - -	13,443	—
	<u>955,753</u>	<u>827,461</u>
Less: Dividends—common shares - - - - -	164,300	162,520
—preference shares - - - - -	58,629	59,777
	<u>222,929</u>	<u>222,297</u>
Retained Earnings, December 31 - - - - -	<u>\$732,824</u>	<u>\$605,164</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1967

(with comparative figures for 1966)



	1967	1966
SOURCE OF FUNDS		
Net earnings for the year - - - - -	\$ 334,398	\$ 328,654
<i>Add:</i> Charges deducted therefrom, not requiring an outlay of funds		
Depreciation - - - - -	209,576	196,583
Amortization of financing expense - - - - -	3,835	3,144
Total Funds from Operations - - - - -	547,809	528,381
Adjustments applicable to prior years - - - - -	13,443	—
Sale of investments - - - - -	—	1,250
Issue of common shares under option agreement - - - - -	30,000	16,000
	<u>591,252</u>	<u>545,631</u>
APPLICATION OF FUNDS		
Fixed assets purchased (net) - - - - -	240,345	441,463
Long term debt retirement - - - - -	70,000	70,000
Redemption of preference shares - - - - -	15,427	24,466
Dividends: Common shares - - - - -	164,300	162,520
Preference shares - - - - -	58,629	59,777
Special refundable tax - - - - -	6,375	12,893
Investment purchased - - - - -	2,000	—
Financing costs - - - - -	10,737	—
	<u>567,813</u>	<u>771,119</u>
INCREASE OR (DECREASE) IN WORKING CAPITAL -	23,439	(225,488)
<i>Add:</i> Working capital as per consolidated balance sheet at end of preceding year - - - - -	1,278,079	1,503,567
WORKING CAPITAL, December 31 - - - - -	<u>\$1,301,518</u>	<u>\$1,278,079</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 1967

NOTE 1. Fixed Assets

Fixed assets are valued as follows:

At cost:		Accumulated Depreciation
Land - - - - -	\$ 19,760	—
Buildings - - - - -	83,003	\$ 38,074
Roads- - - - -	57,562	20,554
Machinery and equipment - - - - -	1,511,447	1,042,177
	<u>1,671,772</u>	<u>1,100,805</u>
At a valuation approved by the Board of Directors of Northern Wood Preservers Limited, being less than an appraised value as determined by General Appraisal Company Limited as at November 23, 1965 with subsequent additions at cost		
Buildings, machinery and equipment of Northern Wood Preservers Limited - - - - -	4,806,505	2,104,015
	<u>\$6,478,277</u>	<u>\$3,204,820</u>

NOTE 2. Depreciation and Deferred Income Taxes

In accordance with the established practice of the company, depreciation has been provided on the basis of amortizing the undepreciated capital cost of the various assets over their estimated useful lives, as determined by the management.

Income taxes since January 1, 1963 have been calculated on the basis of a decision to claim capital cost allowance at the maximum rates allowable and as a result the taxes otherwise payable have been reduced by approximately \$239,009 to December 31, 1967, of which \$37,134 is applicable to 1967. The reduction in taxes may be offset in future years when depreciation recorded on the books exceeds the amounts allowable for tax purposes.

NOTE 3. Long Term Debt

A wholly owned subsidiary has issued a 6.50% Secured Debenture dated February 22, 1967 in the aggregate principal amount of \$1,090,000 maturing May 15, 1978, of which \$1,020,000 is presently outstanding, payable \$70,000 on May 15, 1968 and \$95,000 in the years 1969 to 1978.

NOTE 4. Stock Options

The company reserved 20,000 common shares for issue at \$2.50 per share upon the exercise of options granted to officers and employees of the company or its subsidiaries. Under the option agreement 18,400 shares have been sold at December 31, 1967 and the balance of 1,600 shares are exercisable from time to time on or before March 31, 1969.

NOTE 5. Purchase Fund for Redemption of Preference Shares

On or before March 1 in each year commencing with the year 1966, the company must set aside a purchase fund of \$20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal \$80,000. Since March 1, 1966, 1,781 preference shares have been purchased for cancellation at an aggregate cost of \$39,893.

NOTE 6. Income Taxes

In determining the estimated income tax liability for the years 1963 to 1966 inclusive, a subsidiary company deducted interest and financing charges on its secured debentures. The Department of National Revenue has issued re-assessments for these years under which \$180,098 has been disallowed. Negotiations are pending with the Department to have these re-assessments eliminated. If such negotiations are not successful the company intends to appeal against the re-assessments and in that event the additional tax payable, if any, will be a matter to be determined by the Courts.

No corresponding re-assessments have been issued by the Ontario Corporations Tax Branch.

Should the company be unsuccessful the combined federal and provincial taxes would aggregate \$93,651 excluding interest. Pending settlement, this liability is not included in the balance sheet.

DIRECTORS

J. S. GAIRDNER J. H. GAIRDNER J. H. HAWKE
F. HEDLEY C. W. LEONARDI, C.A. S. F. MACK R. J. PRETTIE

OFFICERS

J. S. GAIRDNER—CHAIRMAN OF THE BOARD
R. J. PRETTIE—PRESIDENT S. F. MACK—VICE PRESIDENT
F. HEDLEY—VICE PRESIDENT R. J. HARTVIKSEN—SECRETARY AND TREASURER
D. B. CARON, C.A.— C. H. HOLLINGSHEAD—
ASSISTANT SECRETARY AND COMPTROLLER ASSISTANT SECRETARY

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY—TORONTO, MONTREAL, WINNIPEG AND VANCOUVER

AUDITORS

F. H. BLACK & CO., (*Chartered Accountants*) PORT ARTHUR, ONTARIO

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

NORTHERN WOOD PRESERVERS, LIMITED

NORTHERN FOREST PRODUCTS LTD.

NORTHERN WOOD PRESERVERS (SASKATCHEWAN) LIMITED

HEAD OFFICE: Port Arthur, Ontario

PLANTS: Port Arthur, Prince Albert

SALES OFFICES: Calgary, Port Arthur, Prince Albert, Toronto

TAR ENAMELS DIVISION: Rust-preventative pipeline tar coatings

TAR DISTILLATION DIVISION: Creosote, carbon coke, roofing pitch, tar-base enamel, road tars foundation coatings, pentasol, carbon pitch

PRESSURE TREATMENT DIVISION: Pressure treated and fire retardant treated wood products, poles, piling, posts, bridge timbers, mine shaft timbers, culverts, lumber, ties, custom framing of timber products, custom treating services

SAWMILL AND LUMBER DIVISION: Wholesale and specialized industrial lumber products, pulpwood chips, railway cross ties, air dried and kiln dried spruce, white pine and jack pine lumber

LOGGING DIVISION: Pulpwood, sawlogs, tie bolts, piling, posts



NORTHERN TAR, CHEMICAL AND WOOD LIMITED